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DEPARTMENT FOR EUR/CE JMOORE, EB/OMA, INR/EC, TREASURY FOR
ERIC MEYER, JEFF BAKER, LARRY NORTON; COMMERCE FOR SSAVICH

E.O. 12958: N/A
TAGS: EFIN ECON PREL HU
SUBJECT: HUNGARY CONCLUDES $2 BILLION BOND ISSUE

¶1. (U) On January 26, Hungary successfully concluded a 2 billion dollar bond auction. There was significant demand for the 10-year dollar denominated bond, with bids in excess of $7 billion from more than 250 investors. Finance Minister Oszko commented that the GOH was pleased with the pricing - a yield of 6.25 percent, or 265 basis points over comparable U.S. Treasury securities. K&H analyst Gyorgy Barcza noted that the pricing is in line with Hungary's current credit default swap (CDS) spreads.

¶2. (U) Citi and Deutsche Bank were lead managers of the deal, which followed a Finance Minister-led investor road show to the U.S. and UK. Deutsche Bank noted that buyers were largely U.S. money managers and insurance companies.

¶3. (U) The value of this issuance is roughly equivalent to the amount of Hungary's maturing foreign currency denominated debt for 2010. Hungarian Debt Management Agency (AKK) and Finance Ministry officials have indicated they do not want to further increase the share of Hungary's foreign currency denominated debt, which remains well above the 30 percent target set by AKK due to draw-downs of the IMF and EU loans.

¶4. (SBU) Comment. Together with the successful July 2009 EUR 1 billion auction, this week's issuance demonstrates a continued improvement in investor risk appetite toward Hungary, as well as Hungary's increasing ability to return to debt markets to finance its expiring debt. An IMF and EU team is expected in mid-February to conduct the final review prior to April's parliamentary elections of Hungary's implementation of its commitments under the $25.1 financial stabilization package. This week's successful auction makes it likely that the GOH will again decline to draw-down the next scheduled disbursement under the agreement. End comment.
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